Accounting separation Methodology Statement

Part 1 of this methodology relates to the analysis of operating costs. The methodology used for the analysis of fixed assets, capital expenditure and depreciation is covered in part 2. The information provided by both parts applies to the price control tables and those showing additional segmental reporting and regulatory information in the Annual Performance Report (APR) and it conforms to the latest Ofwat guidance.

1. Operating cost analysis tables

1.1. Wholesale Methodology Overview

The Company's financial accounts are held on SAP. SAP reports are the source data used to populate the relevant APR and cost assessment tables in notes 2B, 2C, 4D, 4J, 4P and 5B of the Regulatory Accounts, with subsequent allocations made outside of SAP on a spreadsheet.

Operating costs are assigned cost centres and general ledger account codes within SAP. The cost centre denotes the managerial area in which the cost has been incurred; the account code denotes the type of expenditure.

A SAP report is produced which shows the operating costs by cost centre and account code, and it is exported to a spreadsheet. In the spreadsheet, cost centres are assigned an Ofwat business unit, or the operating cost analysis table headings, (see appendix 1) as follows:

- Water Resources
- Raw Water Distribution
- Water Treatment
- Treated Water Distribution
- Retail (household and non-household, measured and unmeasured)
- General and Support
- Allocation (used where a cost centre straddles more than one business unit)
- Rates
- Other Business Activities
- Third Party
- Not used

73% of costs are allocated directly to the headings listed above, with 27% being allocated to "allocation". The headings include appropriate costs as per the most recent definitions provided by Ofwat in section 2 of RAG 2.08. Where cost centres have more than one method of allocation the methodology table in appendix 1 reflects this.

Costs are allocated to the appropriate Ofwat business unit (Water Resources, Raw Water Distribution, Water Treatment, Treated Water Distribution and Retail), which determines the price control or segment in which the expenditure should appear. Where cost centres are not directly allocated to an Ofwat business unit reallocations are made. The basis of allocation for each cost centre is shown in appendix 1.

The principal cost types, for the purposes of the opex table lines are Power, Income treated as negative expenditure, Bulk supply, Infrastructure renewals, Local authority and cumulo rates and Other operating expenditure (including general and support costs)

Power - Power is allocated according to usage, measured by on-site meters. Where site costs are spread across more than one business unit, a manager's estimate is applied to allocate the cost of each site to Ofwat business units. Where the power costs relate to boreholes a further split is applied based on average pumping head. 41.0% of power costs are directly allocated.

Bulk Supply - Bulk Supply relates to the water provided to Bristol Water by Wessex to cover the area near Frome not covered by our network. These costs are split across the Ofwat business units based on Wessex's prior year APR submission (table 4J).

Infrastructure Renewals - Infrastructure renewals expensed in the year are the Infrastructure Renewals Expenditure (IRE) charged to opex, split between Ofwat business units (table 4J).

Non-infrastructure renewals expensed in the year are nil as this relates to expenditure on infrastructure assets and is not applicable to non-infrastructure assets (table 4J).

Local authority and cumulo rates - Rates are reallocated using the proportion of the prior years MEAV values for the Cumulo rates, and FTEs for sewerage rates.

Other Costs - 20.6% of the Other operating costs category found in table 4J are directly allocated with the remainder either requiring analysis to allocate, a management estimated split or another means of allocation.

General and Support - The General and Support costs are reallocated to the appropriate Ofwat business unit, as are allocation costs according to the agreed methodology for each cost centre in those categories. The percentage split of the general and support costs across the price control units is 91.5% wholesale, 8.1% Retail Household and 0.4% Retail Non-household. (subsequently reallocated)

The general and support costs are identified in appendix 1. General and support wholesale costs are allocated according to the appropriate driver identified in RAG 2.08, for example FTEs.

General and support retail costs are allocated according to total customer numbers, to household, non-household, measured and unmeasured headings.

The type of cost allocation methodology applied is based on the following hierarchy:

1. Direct Allocation: 100% allocation to a single business unit as defined in the cost centre accounts

2. Activity based allocation: An activity based analysis to allocate cost centres across the differing business units

3. Managers assessment of time: Senior manager estimate based largely on estimate of time related to cost centre activity in a business unit

4. Pro-rated to primary costs: allocation of cost centre costs with reference to ratio of costs to a defined measure e.g. direct costs or full time equivalents. In some instances there can be exceptions to the standard hierarchy, where pro rating is more appropriate than a management estimate (e.g. general and support costs)

Other Business Activities (the incremental cost of regulation) is allocated according to

1. Managers' assessment of time

2. Full time equivalents in each business unit

3. 20% of regulatory costs are allocated to Retail in line with the most recent regulatory guidelines.

Third Party costs - Third Party costs are individually analysed into business units.

1.2. Retail Methodology

Retail costs are allocated to the household, measured and unmeasured categories according to the appropriate cost driver for the retail heading, as identified in RAG 2.08. Examples of our allocations include allocating general and support costs according to customer numbers, and Network customer enquiries and complaints are allocated according to the volume of network customer enquiries and complaints.

The sequence of allocation is that costs, identified by the cost centre on which the cost has been collected are first allocated to their retail headings, based on a management estimate where necessary.

The retail costs are then identified as household retail using the appropriate driver identified in the OFWAT guidelines. Retail costs resulting from the management fee charged by our billing company are directly allocated to household retail, with management estimates for the separation of measured and unmeasured costs, reflect the measured and unmeasured split for each department. Where there are unexpected variances in either value or allocation, these management estimates are challenged, and amended as required.

Table 2C allocates Retail costs between Household and Non-household.

In 21/22 the Retail Non-household costs are nil, with the expectation that this will be the position going forward.

The BWBSL management charge forms a large part of our retail costs. These costs are broken down by category and the cost in each category is split between Bristol Water and Wessex Water at a fixed percentage rate where we incur around 20% of the metering costs incurred by BWBSL. This reflects the agreement and actual costs incurred.

1.3. Other Cost Analysis

Debt written off (table 2C) is allocated directly to unmeasured and measured household, a small amount is allocated to wholesale.

This is in line with Ofwat's guidance that these line items are an approximation for the old IRE (which would have been prepared on UK GAAP)." and under this there was no non-infrastructure IRE. This is in line with the majority of other water and sewerage companies.

Atypical expenditure (4D) includes any material expenditure usually identified on the Central Items cost centre that would be considered exceptional items in the statutory accounts. A general threshold of £1m movement or greater is used to determine materiality.

Cash expenditure figures are identified and drawn from the Management accounts (table 4D).

The costs associated with the Traffic Management act include both opex permit fees and road closures. Additionally, we have excluded fines and penalties as per Ofwat's guidance in RAG 4.10.

Statutory water softening is nil as we do not soften the water we supply as drinking water.

1.4. Water Resources operating cost analysis, and Table 5B

Table 5B requires the Water Resources business unit to be split into further detail. We identify each category of cost by cost centre or category, and then allocate the costs either directly, by analysis, by management estimate or by prorating, in that order of preference

1.5. Changes to methodology in the year

There have been some minor changes this year. We have tried to keep the process as consistent as possible to facilitate easier comparison and reduce potential errors.

The main changes are;

- 2C now includes lines for the comparison of actual and allowed expenditure
- 5B no longer requires other costs to be analysed between direct and indirect
- Costs are reduced by the principal use recharge overlay in 2C per OFWAT
- Non household retail costs are again allocated to wholesale treated water distribution or to Household retail as appropriate. The underlying working spreadsheet has now been amended to reflect this.
- Innovation fund costs are excluded per OFWAT
- S185 diversion costs are excluded from Operating costs per OFWAT (added back into 4N as capital costs)
- Principal Use Recharge excluded from operating costs

1.6. Operating cost variations year on year

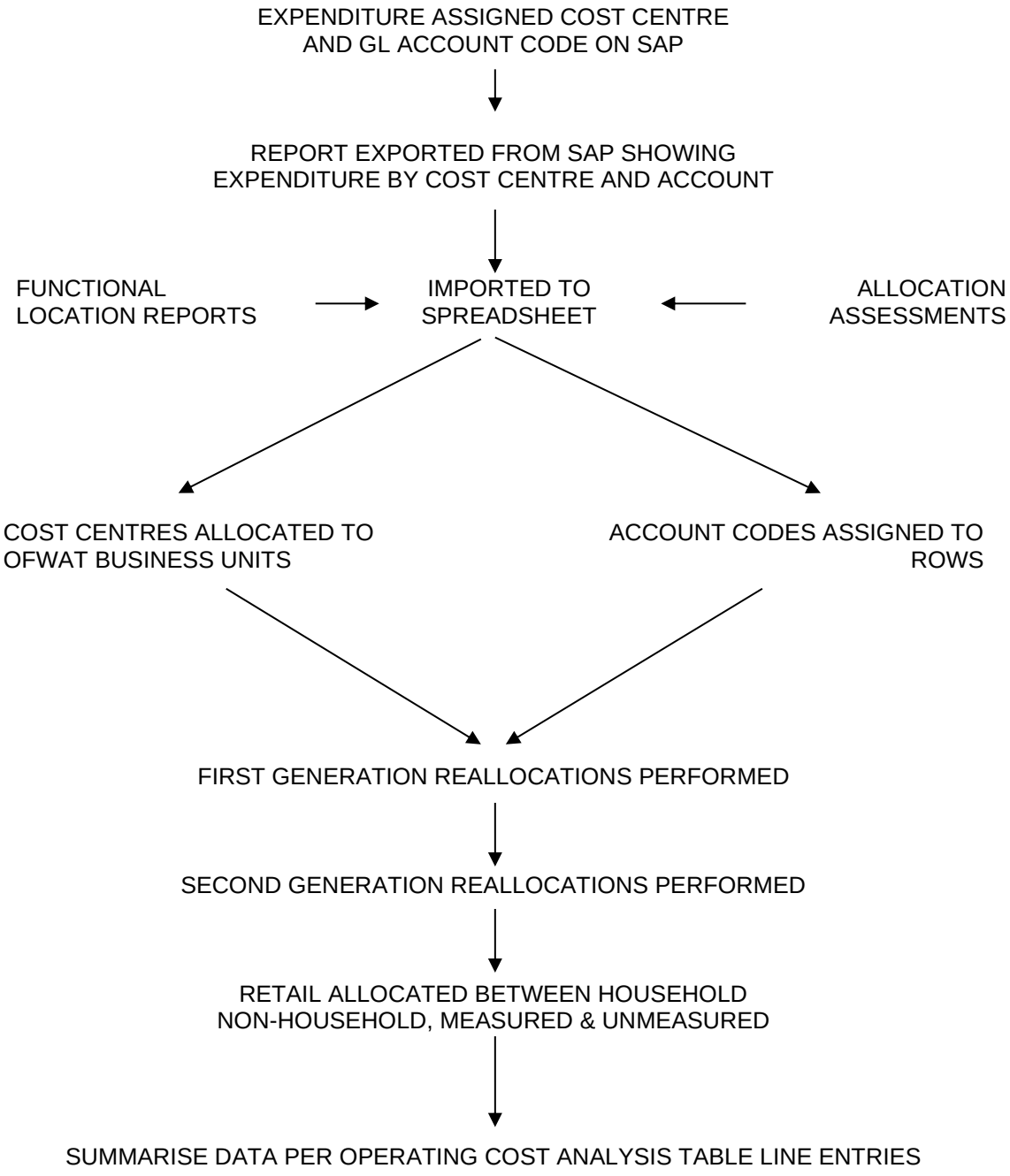
Real variations between 20/21 and 21/22 operating costs are shown in appendix 2.

1.7. Further analysis required for totex analysis of wholesale water (4D)

Each Ofwat business unit has been mapped to the accounting services using the criteria stated in the latest Regulatory Accounting Guidelines.

Wholesale	Ofwat Business Unit	Service	Operating Costs	Fixed Assets
Water Resources	Resources	Abstraction licence	Cost of abstraction licenses from BWB and EA.	Not applicable to fixed asset register. Abstraction licences through opex only
		Raw water abstraction	Contains all resources costs except abstraction licenses.	Includes all resources assets
Network +	Raw water distribution	Raw water transport	Includes all raw water distribution assets except less than 15 day raw water impounding reservoir	Includes all raw water distribution assets except less than 15 day raw water impounding reservoir
		Raw water storage	Assets identified as raw water impounding reservoir with less than 15 day storage	Assets identified as raw water impounding reservoir with less than 15 day storage
	Treatment	Water treatment	Includes all treatment costs	Includes all treatment assets
	Treated water distribution	Treated water distribution	Includes all treated water distribution costs, including Highlift pumps	Includes all treated water distribution costs, including Highlift pumps

1.8. OPERATING COST ANALYSIS TABLE METHODOLOGY



2. Fixed Assets, Capital Expenditure & Depreciation Analysis

2.1. Reporting Requirement:

To complete various data lines in the APR tables 2A, 2B, 2C, 2D, 2O, 4D, 4J in line with the latest reporting guidance documents.

2.2. Purpose

This document describes the method of extracting the fixed asset data from our SAP system and using this data to provide figures for each capital expenditure and depreciation line in the relevant categories in APR tables above. It aims to show the basis of the Ofwat business unit mapping of our assets to enable reporting and the checks and controls involved on completion of the tables.

2.3. Analysis of Fixed Assets - Overview

The fixed asset register is held on SAP. Fixed assets are created in SAP once the projects are completed and in service, please refer to Appendix 4 for our capitalisation policy.

A suite of reports is available in SAP to provide fixed asset movements, showing additions and cumulative totals along with additional data such as business unit. These reports are the source data used to populate the capital expenditure lines and depreciation values in APR tables 2A, 2B, 2C, 2D, 2O, 4D and 4J of the Regulatory Accounts with subsequent allocations made outside of SAP on a spreadsheet.

The fixed asset register in SAP holds both Historic cost and Current cost fixed assets.

Each asset within the fixed asset register is assigned a CCA class. The CCA class determines the type of asset and whether an asset is an:

- Infrastructure asset
- Operational asset
- Other asset

The CCA classes have been mapped to the Ofwat Business Units using the Ofwat guidance. This is detailed in Appendix 3 to this commentary.

Additional flags have been set up on the fixed asset register which hold the Ofwat Business unit to aid the completion of the tables in the regulatory accounts. These are assigned to each asset. The Ofwat Business Unit flags used are:

- Water Resources
- Raw Water Distribution
- Water Treatment
- Treated Water Distribution
- Retail
- Retail household
- Retail non household (no longer in use)
- General and Support
- To be allocated (used where an asset straddles more than one business unit)

These flags can then identify where each asset sits within the following table showing the wholesale price control unit segments:

Wholesale	Ofwat Business Unit	Service	Operating Costs	Fixed Assets
Water Resources	Resources	Abstraction licence	Cost of abstraction licenses from BWB and EA. Does not include Purchase of Water (imports).	Not applicable to fixed asset register. Abstraction licences through opex only
		Raw water abstraction	Contains all resources costs except abstraction licenses	Includes all resources assets
Network +	Raw water distribution	Raw water transport	Includes all raw water distribution assets except less than 15 day raw water impounding reservoir	Includes all raw water distribution assets except less than 15 day raw water impounding reservoir
		Raw water storage	Assets identified as raw water impounding reservoir with less than 15 day storage	Assets identified as raw water impounding reservoir with less than 15 day storage
	Treatment	Water treatment	Includes all treatment costs	Includes all treatment assets
	Treated water distribution	Treated water distribution	Includes all treated water distribution costs, including Highlift pumps	Includes all treated water distribution costs, including Highlift pumps

2.4. Process - Throughout the year

When assets are created, they are given the appropriate flags within SAP as set out above. When allocating these flags to the assets, we consider criteria such as, what type of asset, the project it relates to and the location of the asset. The physical site and type of asset is used as a reference point in establishing the business unit to which an asset is allocated. Further information on the mapping of different type of asset classes and the appropriate business unit can be found in Appendix 3.

Assets that cannot be attributed a specific business unit within wholesale or retail price control units are given either Gen&Sup flag or TBA flag dependent on whether it is an operational asset e.g. pumping asset or general asset e.g. computers. These are then allocated based on the most appropriate method or as stated within the latest RAGs at year end.

2.5. Process - At year end reporting

- In SAP, run the asset movement report (SAP transaction ZHCA_ASSET_MOVEMENTS) for the financial year ending date. This report will list all assets in our fixed asset register line by line. It also shows the opening cost, additions, disposals, cost year end, depreciation charge and cumulative and net book value,
- Change the layout of the report in SAP to include the data fields for CCA class, Ofwat Business Unit, Base or Enhancement. These are the flags that have been maintained throughout the year.
- Export report to excel
- Roll forward the file from prior year 'Accounting Separation - HCA including intangibles (FY)' within the finance 'Accounting separation' folder. Update dates, copy final working table from prior year to final year tab for the opening b/f values.
- Paste the data exported from SAP to the HCA 2021-22 tab
- Update the 'FTE' tab (full time equivalent) for the year taken from the operating expenditure analysis working spreadsheet to ensure consistency.
- Update tab 'RWST working' tab for the Raw water dist split for raw water storage column.
- Update tabs for: Contributions, Third party additions, New supplies and adjustments. These tabs flow to the 'wholesale table year total HCA' tab.
- The main data downloaded entered on tab HCA (year) in the working spreadsheet is where the data automatically flows to the 'wholesale table (year) total HCA' tab to show the totals by business unit. The proforma tables e.g. 4D, link to this wholesale table tab.
- The total figures on the 'wholesale table (year) total HCA' tab are sense checked;
    - against management accounts totals and
    - delivery (capital) plan figures.
- Any corrections are identified and corrected and adjustments such as post year end accruals are added.

2.6. Allocation to wholesale and retail

In line with the latest guidelines, assets have been directly attributed to one of the price control units - wholesale water and household retail. Since 2017/18 reporting, we no longer hold any retail non household assets in our Fixed Asset Register The assets with a retail flag are included in retail household price control unit only and no recharge is necessary as no non household activity is carried out.

Where an asset is used by more than one of these price control units, then they have been reported based on their principal use.

The assets affected are those identified with business unit flag general and support. The general and support assets are wholly included in wholesale water price control unit. A recharge is calculated within the working spreadsheet and reported to/from wholesale and retail household using appropriate allocation basis. This is further split into water resource and Network+ categories.

The general and support element is allocated to Ofwat business units in proportion to full time equivalents employed in those business units excluding the retail element or as a percentage of directly allocated assets for example, vehicles. The full time equivalent including the retail element percentage was used to calculate the recharges.

Where appropriate, allocations are consistent with the Operating cost analysis table allocations.

The following table shows the percentage of allocated assets in comparison to the total gross cost at year end and net book value. This analysis is taken from HCA including intangibles spreadsheet which produces table 4D and 2B.

Assets	**Gross Cost at Year End**	**NBV**
General & Support	8.00%	4.43%
To be allocated	0.89%	0.32%
Total	**8.89%**	**4.75%**

The above table shows that over 91% of the total gross cost at year end and over 95% of the net book value is directly assigned to Ofwat business units.

The two largest asset categories in 'General and Support', which account for 80% of the total gross cost and 81% net book value at year end of 'General and Support' assets, are computers and land and buildings. The table below shows that, for example, 25% of computer assets are allocated directly to Ofwat business units, and 75% (£41.7) to general and support. The general and support element is allocated to Ofwat business units in proportion to full time equivalents employed in those business units excluding the retail element.

	Gross Cost Year End			Net Book Value			
Assets	**Directly allocated**	**Allocated to General and support**		**Directly allocated**	**Allocated to General and support**		**Basis of Allocation**
	%	**%**	**£m**	**%**	**%**	**£m**	
Computer	25%	75%	41.676	32%	68%	10.323	Full time equivalent %
Land & Bldgs	18%	82%	19.253	20%	80%	11.822	Employment costs %
Other general and support			15.279			5.066	Based on % of directly allocated assets
Total general and support			76.207			27.212	

Where appropriate, allocations are consistent with the Operating cost analysis table allocations. For tables 2B and 4D general and support assets were allocated wholly to wholesale across the business units by using full time equivalent excluding the retail element or as a percentage of directly allocated assets for example, vehicles. The full time equivalent including the retail element percentage was used to calculate the recharges in table 2C. The recharges split between wholesale and retail are shown in table 2A. The following table shows the total depreciation charge of general and support assets and the percentage included as a recharge for retail household, non-household segments.

	Gen&Sup depreciation total	Gen&Sup - retail element recharge	
	£m	£m	%
Total General and support depreciation charge	6.479	0.611	9.4%
Recharge - Retail household		0.611	100.0%

Analysis of all retail assets was carried out to produce figures for Retail table and to calculate the recharge figure in table 2C those that could be identified as principally or wholly retail was given a retail flag and attributed to retail household price control. The following table shows in more detail the types of asset within retail.

Assets type	Gross cost Retail	NBV Retail	Depn charge
	£m	£m	£m
General equipment	0.057	0.020	-0.001
Computer	11.892	4.158	-0.134
Land & Buildings	0.202	0.151	-0.003
Vehicles & Mobile Plant	0.241	0.120	-0.019
Total	12.392	4.449	-0.156

2.7. Changes to reporting 21/22

No allocation changes were identified in 2021/22.

There were some changes to the APR templates for 2021/22:

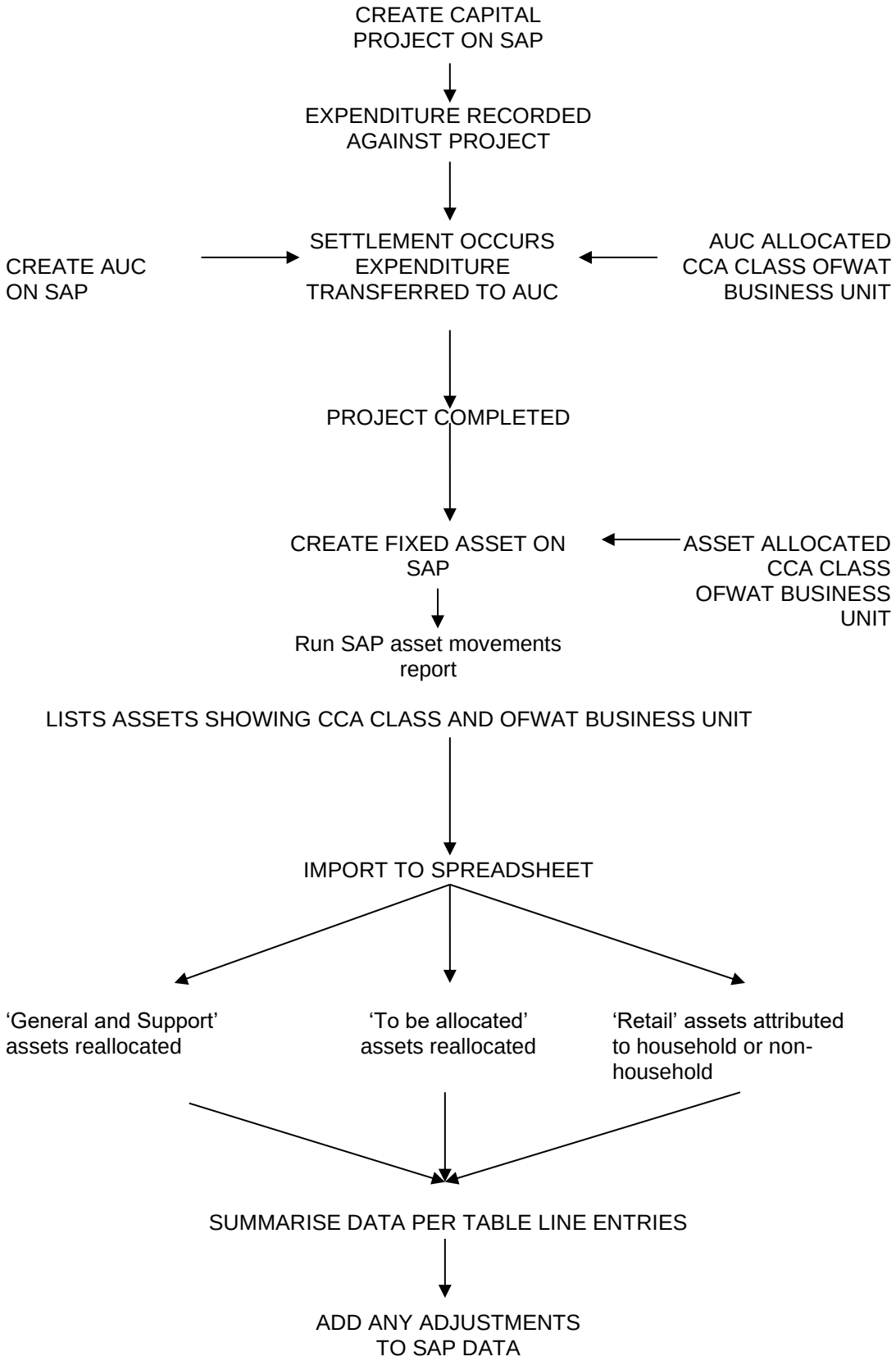
- 2A no longer has a separate PU impact line (2A.8 in 20/21) but shows it as part of the operating expenditure section as excluding and including impact.
- 2C has retail comparison of actual and allowed expenditure section.

2.8. Significant Capital Expenditure Schemes – 2021-22

The additions within the year totalled £41.3 including retail and were largely within the treated water distribution business unit (£8.0m non infra and £23.1m infra). The following shows details of schemes which had significant spend in 2021-22 along with their business unit.

Scheme	Spend £m	Business Unit
GAC Replacement	0.6	Treatment
TW civil inspections/Base maintenance	1.8	Treatment
Purton gas fired generator	1.2	Treatment
Chlorine Handling safety works	0.4	Treatment
Alderley plumbsolvency control	0.2	Treatment
Clevedon UV	0.2	Treatment
SSF sand changing	0.2	Treatment
Electrochlorination	0.4	Treatment
	5.0	
NEP – Catchment/Investigations etc	0.6	Resources
Littleton Eel protection	0.9	Resources
Recreational INNS	0.1	Resources
Regional Strat schemes	0.2	Resources
Appointed Lakeside/recreations/trails	0.2	Resources
Drought plan & WRMP24	0.3	Resources
	2.3	
Self Lay payments	1.4	TW Dist (Infra enhn)
Lead CP replacement (Quality/Nurseries)	0.4	TW Dist (Infra enhn)
Infrastructure mains	0.5	TW Dist (Infra enhn)
Wells to Glastonbury Main	1.6	TW Dist (Infra enhn)
Domestic & Ind Onsite/Offsite	1.6	TW Dist (Infra enhn)
	5.5	
Lead Communication pipe replacement	3.0	TW DIST (IRE Capex)
Stop tap replacement	2.7	TW DIST (IRE Capex)
Mains replacement/relining/repairs	8.8	TW DIST (IRE Capex)
	14.5	
Metering	3.4	TW Dist (Non Infra)
Service Res Maint/Potable structures	0.9	TW Dist (Non Infra)
Leakage	0.1	TW Dist (Non infra)
Pressure management	0.3	TW Dist (Non infra)
Purton High lift PS	0.1	TW Dist (Non infra)
	4.8	
Transport & Plant	0.2	General & Support
Core IT investment	1.1	General & Support
SEMD	0.1	General & Support
Operational Telemetry	0.2	various
PS Base maintenance	0.4	various
CLIO computer software	0.5	General & Support
Software application development	0.8	General & Support
Communications	0.1	General & Support
	3.4	
Project Falcon	1.1	Retail

2.9. CAPEX METHODOLOGY



3. Data Assurance

- The total capital expenditure lines are checked against the delivery plan at year end to ensure accuracy of the total and the correct category e.g. infrastructure enhancement. This is confirmed with a member of the Financial Planning & Analysis team who oversee the delivery plan.
- All totals are reconciled to the management accounts along with the regulatory adjustments required by the current RAGs.
- A reconciliation of the enhancement capital expenditure with the regulatory adjustments required are provided to the table owner for 4L
- A reconciliation of the Developer services expenditure with the regulatory adjustments required are provided to the table owner for 4N.
- Validation checks within the APR tables are reviewed.

3.1. Reviewer

The Head of Finance is the reviewer for the above tables and checks the tables against the Management accounts and other regulatory tables.

3.2. External Assurance

Turner & Townsend provide the external assurance for section 4 tables – 4D, 4J
PWC provide external assurance on section 2 tables – 2A, 2B, 2C, 2D, 2O

3.3. Directors' approval

This table is approved by the directors as part of the approval process for the Regulatory Accounts.

3.4. Processes and Systems

The fixed asset register is maintained on the SAP system. Assets added in the year are updated as per the 'throughout the year' process section above.

3.5. Improvement plan

No further improvements have been identified which will enhance reporting for the analysis of the fixed asset register at present.

3.6. Capitalisation policy

This is included in appendix 4

APPENDIX 1 – Operating Cost Allocation methodology

Cost Centre	Description	Basis of Allocation/direct	General and Support	Allocation type	W Res %	RW Dist %	W Treat %	TW Dist %	Retail %
1005	Bad Debts	Direct		1				3%	97%
1006	Customer Relationships	Direct		1					100%
1006	Customer Relationships	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
1010	Wholesale Services	Ratios of service analysis direct costs	General & support	3	24%	1%	27%	47%	0%
1010	Wholesale Services	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
2004	Production Management	Manager Estimated %		3	10%	10%	65%	10%	5%
2015	Asset Information Management Team	Manager Estimated %		3	5%	10%	50%	35%	
2015	Asset Information Management Team	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
2018	Programme Management	Manager Estimated %		3	5%	10%	75%	10%	
2018	Programme Management	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
2020	Production ICA	Manager Estimated %		3	1%	4%	55%	40%	
2100	Purton	Drect and Analysis of flows for pretreatment		2	0%		100%		
2110	Purton - catchment	Direct		1	100%				
2140	Production North	Analysis of works orders		2	8%	7%	74%	11%	
2150	Prod North TW	Direct		1			100%		
2160	Prod North Raw Water Pumping Stations	Direct		1		100%			
2170	Prod North Catchment Sites	Direct		1	100%				
2180	Shipton Moyne TW	Direct		1			100%		

2190	Purton High Lift Pumping Station	Direct		1				100%	
2200	Littleton	Direct		1			100%		
2300	Barrow	Direct		1			100%		
2320	Stowey TW	Direct		2			100%		
2340	Prod East	Analysis of works orders		2	8%	7%	74%	11%	
2350	Prod East TW	Direct		1			100%		
2360	Prod East Raw Water Pumping Stations	Direct		1		100%			
2370	Prod East Catchment Sites	Direct		1	100%				
2420	Banwell	Direct		1			100%		
2430	Axbridge	Direct		1	100%	0%			
2440	Prod West	Analysis of works orders		2	8%	7%	74%	11%	
2450	Prod West Treatment Works	Direct		1			100%		
2460	Prod West Raw Water Pumping Stations	Direct		1		100%			
2470	Prod West Catchment Sites	Direct		1	100%				
2480	Cheddar TW	Direct		1			100%		
2540	Control Centre (ops room)	Manager Estimated %		3	10%	10%	35%	40%	5%
3099	Asset Info Projects	Manager Estimated %		3	5%	10%		85%	0%
3120	NM Contract Repair & Maintenance	Direct		1				100%	
3130	NM Contract Mains Renovation	Direct		1				100%	
3140	NM Contract New Mains and Services	Direct		1				100%	
3200	O&M North	Analysis of works orders		2				87%	13%

3205	Network Rechargeable Works	Direct		1				100%	
3210	O&M North Dist	Analysis of works orders		2				87%	13%
3220	O&M North Trunk Mains	Direct		1				100%	
3230	O&M North Raw Water Mains	Direct		1		100%			
3240	O&M North Leakstop	Direct		1				100%	
3250	O&M North Service Reservoirs	Direct		1				100%	
3260	O&M North Pumping Stations	Direct		1				100%	
3270	Distribution Management	Analysis of works orders		2				87%	13%
3280	Strategic Ops Management	Direct		1				100%	
3290	Leakage & Technical mangement	Direct		1				100%	
3400	Metering	Direct		1				100%	
3450	Cost management	Ratios of service analysis direct costs	General & support	4	24%	1%	27%	47%	0%
3800	Network Management	Analysis of cost centre totals		2	0%	0%	0%	90%	10%
3801	Stores Overheads	Direct		1				100%	
3802	Rechargeable Overheads	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
3803	Water Regulations	Direct		1				100%	
3805	Rechargeable Work	Direct		1				100%	
3805	Rechargeable Work S.185 Diversions	Direct		1				100%	
3806	Op Customer Services	Direct		1					100%
3806	Op Customer Services	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
3808	Procurement Service	Ratio of materials/consumables costs	General & support	4	4%	1%	81%	15%	0%

3811	Rech other- FPQ	Direct		1				100%	
3813	Network Schedulers	Base on work of staff being scheduled		2	0%	0%	0%	89%	11%
3816	Standpipe Hire Costs	Direct		1				100%	
3817	Ret NHH non primary	Manager Estimated %		3				100%	
4001	Civils / Mains Projects	Ratios of service analysis direct costs	General & support	4	24%	1%	27%	47%	0%
4002	Land Surveyor	Ratios of service analysis direct costs	General & support	4	24%	1%	27%	47%	0%
4003	H/O Maint	Ratios of direct costs	General & support	4	22%	1%	25%	43%	9%
4004	Development Services	Direct		1				100%	
4005	New Supplies	Direct		1				100%	
4005	New Supplies	Direct		1				100%	
4102	Drawing & Mapping	Manager Estimated %		3	5%	10%		85%	0%
4103	Network Planning	Direct		1				100%	
4200	Abstraction Charges	Direct and analysis of bulk import		2	99%		0%	1%	
4308	FM Services	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
4309	Non-spec op sites	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
4311	Projects	Ratios of direct costs		4	22%	1%	25%	43%	9%
4312	FM Salaries	Manpower figures - FTE		4	7%	2%	21%	62%	8%
4401	Barrow Transport	Transport usage by department		2	24%	1%	27%	47%	0%
4500	H/O Heat and Light	Ratios of direct costs	General & support	4	22%	1%	25%	43%	9%
4503	Telecoms	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
4503	Telecoms	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%

4504	Power - Production	Analysis of electricity costs by site		2	22%	1%	38%	40%	
5000	Information Systems management	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
5002	Process Science	Manager Estimated %		3	23%	0%	41%	25%	11%
5002	Process Science	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
5003	Business Resilience	Ratios of direct costs	General & support	4	22%	1%	25%	43%	9%
5004	Scientific Services	Manager Estimated %		3	24%	0%	38%	26%	12%
5006	Environment Manager	Ratios of service analysis direct costs	General & support	4	24%	1%	27%	47%	0%
5006	Environment Manager	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
5100	Financial Accounts	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
5100	Financial Accounts	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
5101	Regulation & Change	Management estimate		3	14%	1%	17%	48%	20%
5101	Regulation & Change - innovation fund	Management estimate		3	14%	1%	17%	48%	20%
5101	Regulation & Change	Ratios of direct costs	General & support	4	22%	1%	25%	43%	9%
5103	Insurance and Compensation	Pro rata, with Employees liability by FTE		4	24%	1%	31%	40%	4%
5109	Central items	Analysis		2	629%	0%	0%	-529%	0%
5109	Central items - manpower costs	Manpower costs		2	7%	2%	21%	62%	8%
5109	Central items - General and Support	Ratios of direct costs	General & support	4	22%	1%	25%	43%	9%
5111	Admin Sals Recovs	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
5114	Rates	MEAV allocations (cumulo) /FTE (local)		2	26%	3%	6%	65%	0%
5120	Periodic Review	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%

5124	Business Services	Ratios of direct costs	General & support	4	22%	1%	25%	43%	9%
5124	Business Services	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
5126	Business Improvement	Ratios of direct costs	General & support	4	22%	1%	25%	43%	9%
5127	Strategic Asset Management	Ratios of direct costs	General & support	4	22%	1%	25%	43%	9%
5131	Transformation Prog	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
5200	General Management	Directors Remuneration by managers estimate (Retail estimate and FTE)	General & support	3	6%	1%	18%	54%	20%
5200	General Management	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
5201	Human Resources	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
5202	Corporate Affairs	Direct		1					100%
5202	Corporate Affairs	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
5202	Corporate Affairs	Ratios of service analysis direct costs	General & support	4	24%	1%	27%	47%	0%
5203	Recreations Amenities	Direct		1	100%				
5206	General Legal	Ratios of direct costs	General & support	4	22%	1%	25%	43%	9%
5206	General Legal	Allocation on basis of Time Spent		3	14%	1%	17%	48%	20%
5209	Health & Safety	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
5210	Training	Manpower figures - FTE	General & support	4	7%	2%	21%	62%	8%
5212	Community and Charities	Ratios of service analysis direct costs	General & support	4	24%	1%	27%	47%	0%
5400	Shared Services	Ratio of materials/consumables costs	General & support	4	4%	1%	81%	15%	0%
	Borehole maintenance allocation	Analysis of works orders		2	49%	0%	51%	0%	

Key to allocation type	
1	Direct Allocation
2	Activity based Allocation
3	Management estimate applied
4	Other means e.g. pro rata

APPENDIX 2 - Real variations between 20/21 and 21/22 operating costs

		2020/21	2020/21 inflated to 2021/22 prices	2021/22	Change in costs in real terms
		£m	£m	£m	£m
Wholesale	Operating expenditure	58.5	60.7	52.8	(7.9)
Retail	Operating expenditure	11.8	12.2	8.5	(3.7)
	Total operating costs	**70.3**	**72.9**	**61.3**	**(11.6)**

The real decrease in total operating costs is £10.8m. This consists of:

Table 1	**One-off variances**		**Wholesale Opex variances**		**Total £m**
Employment Costs	0.0		-1.0	Reduction in salary costs across the company as part of the transformation program	-1.0
Power	-1.6	Significant savings due to gas powered generator and what gas was used was frequently capitalized as it was part of the gas gen testing process	0.0		-1.6
Hired and Contracted Services	0.0		0.0	-£0.7 decrease in CRT purchase of water and -£0.3 in arbitration costs. -£0.5 Production contractor costs -£1.3m reduction in Network opex costs, due to a shift to stoptap replacement from stoptap repair. We have also moved to a subsidiary payment approach for customer side leak repairs rather than NMSC repairs which would also have reduced contractor costs. Other small movements, largely driven by transfrmation	-3.3
Rates	0.0		-0.2	£0.2 Rate charges static despite inflation	-0.2

Table 1	One-off variances		Wholesale Opex variances			Total £m
Business activities			-0.3	Increase in time spent on regulatory activities by scientific services staff, but this is offset by decreases in other areas		-0.3
General and support expenditure	-1.6	Decrease in transformation costs relating to efficiency delivery	+1.1	+0.4 +0.3 +0.4	Business Services increase – increase in non-regulatory management time for business services cost centre Shared Services – increase in resource for new centralised function Finance – increase due to Pennon Share payment for sharesave scheme and Pennon management charge	-0.5
Third Party Services	0.0		-0.4	-0.4 relating to lower volume of mains diversion and damages work		-0.4
Principal use recharge			-0.6	Overlay for transfer of costs to retail		-0.6
Wholesale Opex	**-1.6**		**-6.3**			**-7.9**

Retail operating cost variances identified below.

Table 2	One-off variances		Retail Opex variances		Total £m
	£m	**Explanation**	**£m**	**Explanation**	
Doubtful Debts	0.0		-2.5	Since 2019/20 we have reduced our expectation of cash collection to take account of this pandemic, and this year we have continued to provide at this heightened level as a result of the impact we expect from the cost of living crisis, however as a result of this step up in bad debt provision	-2.5

Table 2	One-off variances		Retail Opex variances		Total £m
	£m	Explanation	£m	Explanation	
				over the last 2 years, this year the charge to the P&L was substantially lower resulting in a year on year improvement	
General and support expenditure	0.0		-0.7	Reduction in transformation project as finalized Ongoing reduction in Head office maintenance – insourcing of maintenance as part of cost saving initiative	-0.7
Network customer enquiries and complaints	0.0		-0.5	Cost previously incurred as non-household retail now considered Treated Water Distribution, as expected at PR19.	-0.5
Retail Opex	**0.0**		**-3.7**		**-3.7**

APPENDIX 3 - CCA Allocation methodology

CCA Class	Asset Class Name	Asset Inventory Category	Ofwat business units									
			Water Resources	Raw Water Distribution	Water Treatment	Treated Water Distribution	Retail	Retail Household	Retail Non Household	General and Support	To be allocated	Not Used
COHS	Company Houses	Other Management and General	Δ	Δ	Δ	Δ				Δ		
COMP	Computers	Computers	Δ	Δ	Δ	Δ	Δ			Δ		
CP3	C.P. 3rd Party Conts	*Grants & Contributions*										√
CPX3	C.P. (Ex. 3rd Party Conts)	Water Mains Ancillaries- customer (Infra)				√						
CRES	Collection Reservoirs	Dams & Impounding Reservoirs	Δ	Δ								
CRSN	Collection Reservoirs Non-Infra	Dams & Impounding Reservoirs	Δ	Δ								
DM	District Meters	Other Management and General				√						
GENE	General Equipment	Other Management and General	Δ	Δ	Δ	Δ	Δ			Δ		
HHM	Household Meters	Water Mains Ancillaries – Customer (Non-Infra)				√						
HODB	HO & Depot Buildings	Offices & Laboratories, Depots and Workshops	Δ	Δ	Δ	Δ				Δ		
INFR	Infra-Rev	*Infrastructure renewals spend*										√
L3PC	Land Third Party Conts	*Grants & Contributions*										√
LAND	Land Specialised	Depots, Res, TW-W3, Other, Offices, Booster PS	Δ	Δ	Δ	Δ				Δ		
LBNS	Land & Buildings Non-specialised	Depots, Intake & Source PS, Res, Dams/Impounding Res, Water TWR, TW-W2, W3 & W4	Δ	Δ	Δ	Δ				Δ		
LBSP	Land & Buildings Specialised	Booster, Source & Intake PS, Res, Dams/Impounding Res, Water TWR, TW-SD, W2, W3 & W4	Δ	Δ	Δ	Δ				Δ		
MN3P	Mains 3rd Party Conts	*Grants & Contributions*										√
MNX3	Mains excl 3rd Party Conts	Potable Mains and Other Mains		Δ(1 asset)		√						
NHHM	Non Household Meters	Water Mains Ancillaries – Customer (Non-Infra)				√						
NIAB	Non Infra Assets Buildings	*Grants & Contributions*										√
NIAD	Non Infra Assets Def Income	*Grants & Contributions*										√

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CCA Class	Asset Class Name	Asset Inventory Category	Ofwat Business Units									
			Water Resources	Raw Water Distribution	Water Treatment	Treated Water Distribution	Retail	Retail Household	Retail Non Household	General and Support	To be allocated	Not Used
NIN3	Non Infra Contributions	*Grants & Contributions*										√
NONA	Non-appointed Assets	*Non-appointed assets*										√
OM	Operational Meters	Other Management and General		Δ	Δ	Δ					Δ	
PBB	Pumping Buildings Booster	Booster Pumping stations				√						
PBI	Pumping Buildings Intake	Intake Pumping stations	Δ	Δ								
PBS	Pumping Buildings Source	Source Pumping stations	Δ			Δ						
PMBL	Pumping Buildings	Intake, Source & Booster Pumping Stations	Δ	Δ	Δ	Δ					Δ	
PPB	Pumping Plant Booster	Booster Pumping stations				√						
PPI	Pumping Plant Intake	Intake Pumping stations	Δ	Δ								
PPS	Pumping Plant Source	Source Pumping stations	Δ			Δ						
PMPT	Pumping Plant	Intake, Source & Booster Pumping Stations	Δ	Δ	Δ	Δ					Δ	
RWT	Raw Water Tunnels	Raw Water Aqueducts	Δ	Δ								
SCRT	Security	Other Management and General	Δ	Δ	Δ	Δ				Δ		
SRC	Sources	Other Management and General	√									
SVRS	Service Reservoirs	Service Reservoirs				√						
TELE	Telemetry	Telemetry Systems and Other	Δ	Δ	Δ	Δ				Δ		
TWCV	Treatment Works - Civils	SD, W1, W2, W3, W4 Treatment works			√							
TWPT	Treatment Works - Plant	SD, W1, W2, W3, W4 Treatment works			√							
VCMP	Vehicles/Mobile Plant	Vehicles	Δ	Δ	Δ	Δ	Δ			Δ		
WTTW	Water Towers	Water Towers				√						
WWM	Waste Water Meters	Other Management and General				√						

Key: √ - Assets directly allocated to Business Unit by CCA class
Δ - Assets allocated by asset description or site – Gen&Sup/To be allocated assets allocated across business units by appropriate allocation method

APPENDIX 4 – Capitalisation Policy

1. CAPITALISATION ACCOUNTING POLICIES

1.1. Definition of a Fixed Asset

An asset is an item that Bristol Water owns and uses in the course of its business. A fixed asset is an asset that we retain for more than a year. Some common examples within Bristol Water are treatment plant, pumps, land and buildings, water mains and services, office equipment, e.g. photocopiers, vehicles and computer hardware and software. It does not include consumable and stock items.

1.2. Infrastructure Assets

Infrastructure expenditure falls into two categories:

i. Costs in respect of the provision of additional infrastructure capacity or enhancement of the network are capitalised (these include projects such as new water mains, new connections and work on impounding reservoirs).
ii. Other infrastructure to do with repair and replacement such as boundary mains replacement, network analyses, lead replacements and high-risk crossings.

Types of Infrastructure assets

Infrastructure assets comprise the integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. Expenditure on such assets relating to increases in capacity and enhancements are included at cost. The cost of infrastructure assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs, which are incremental to the Company.

1.3. Other assets

Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. These are generally categorised as non-infrastructure assets. All are included at cost. The cost of other assets is their purchase cost together with incidental expenses of acquisition and commissioning and any directly attributable labour costs, which are incremental to the Company.

1.4. Current Cost Accounting

We have maintained the CCA fixed asset register for future reference.

1.4.1. Tangible fixed assets

The valuation of all assets, except vehicles and mobile plant (see 'other fixed assets' note below), is based on the modern equivalent asset valuation produced by the Asset Management Plan (AMP) valuation at 31 March 2008, as amended for additions, disposals, and retail price index adjustments after this date to the period ended 31 March 2021. This equates to a proxy for depreciated replacement cost of their operating capability.

To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributions from third parties and to the extent that some of those assets would, on replacement, be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

1.4.2. Land and buildings

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 2008 and have been expressed in real terms by indexing using the Retail Price Index ("RPI") since that date.

Specialised operational properties at 31 March 2008 were valued at the lower of depreciated replacement cost and recoverable amount and have been restated by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received since 31 March 1990 is deducted in arriving at net operating assets (as described below).

The valuation of land and buildings for both specialised and non-specialised properties is undertaken by a Chartered Surveyor employed by the company.

1.4.3. Infrastructure assets

Mains, impounding and pumped raw water storage reservoirs and dams are valued at a proxy replacement cost determined principally on the basis of data provided for the Asset Management Plan. A continuing process of refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. This is in conjunction with the determination of price limits by Ofwat at 5 yearly intervals. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

1.4.4. Other fixed assets

All other fixed assets are valued periodically at depreciated replacement cost. The last valuation included being at 31 March 2008. Between periodic reviews, values are restated for inflation as measured by changes in the RPI. Vehicles and mobile plant were stated at depreciated historical cost until 31 March 2008 as differences between historical cost and current cost values were not considered material. From 1 April 2008 RPI has been applied to vehicles and mobile plant, following a revaluation of assets at 31 March 2008 showed a significant difference between the historic and current cost values of these assets.

1.4.5. Surplus land

Surplus land is valued at recoverable amounts taking into account that part of any proceeds are to be passed on to customers under Condition B of the Licence of Appointment.

1.5. Fixed Asset Register

The Fixed Asset register is the Company's primary record of capitalised expenditure on fixed assets. It is part of the SAP computer system. The fixed asset register is managed by the Financial Control team.

Capital costs are defined as those costs, which are incurred in providing an additional, or a replacement, non-infrastructure asset. In addition, costs in respect of the provision of additional infrastructure capacity or enhancement of the network are also capitalised. These costs are incorporated in the Balance Sheet as additions to fixed assets. Where non-infrastructure assets have been replaced their cost is removed from the Balance Sheet. There is no rule which requires capitalisation of any costs in excess of a specific value however it is unlikely that items with a value less than £1000 in total would be capitalised.

1.6. Fixed Asset Register Purpose and Scope

To manage Bristol Water's Fixed Assets Register and to depreciate the assets in this register over their natural lives allowing for any disposal or unplanned deterioration in their value.

2. PROCEDURES AND INTERNAL GUIDANCE FOR CAPITALISATION

2.1. Initiating a Project

The need for new assets or modifications to existing assets is wholly business driven. The five yearly Company Business Plan, against which OFWAT sets the Company funding level, sets out the major projects and the sums available for Capital Maintenance. Whilst the Business Plan will form the basis of the Capital Programme, the Asset Management Team will liaise with Operating and Engineering departments to identify the individual infrastructure and non-infrastructure projects.

2.2. Procedures governing Projects

There are policies held on our document management system and on Sharepoint:

2.2.1. Project Management Reference Book

The purpose of this procedure is to state how Engineering Projects shall be managed. It provides an overview of the requirements at each stage of the project. It is not prescriptive at a detailed level; the Project Manager shall detail the requirements appropriate to each project. It is currently held on Sharepoint,

2.2.2. RDENGEN-02 Code of Practice on Business Investment

This Code of Practice summarises the process necessary for implementation of the investment schemes. It is not prescriptive at a detailed level and should be read in conjunction with the detailed procedures covering specific areas of project management, particular, the Procedure for Management of Engineering Projects.

2.3. One off Projects and Rolling Schemes

The Company splits its capital expenditure programme into individual Projects. Projects are set up in SAP and comprise a unique project definition and a lower level work breakdown structure (WBS) against which costs are collected. Projects can have a defined life to build for example a treatment process or they can be "rolling schemes" such as underground water mains for new housing developments, vehicles and meters that have no finite life. A budget is set for each project for each financial year.

3. CHECKS ON PROCEDURES AND GUIDANCE

3.1. Approval Process

Projects have to go through an approval process, the form of which depends on their value and the type of scheme. The approval process takes the form of a number of project gateways which are defined in the Project Managers' Reference Book. The appropriate project gateway (PG) form must be completed and approved to allow the project to progress.

The Programme Governance Committee (PGC) shall consider all new projects and shall approve projects estimated to cost up to £250,000. Investment Approval Group (IAG) shall consider and approve new projects estimated to cost more than £250,000.

The designated Asset Planning Engineer shall prepare the relevant PG papers for the approval groups evaluating alternative solutions to meet the project objective and recommend a preferred option. PGC and/or IAG support is required for the Project to proceed.

Individual contracts with a value over £1m will be referred up to the Board for final approval. Projects are regularly reviewed by the PGC and/or IAG when they are ready to proceed to the next gateway, or if the scope has changed requiring additional budget or different outputs.

3.2. Project Budget release

Before budget is released on projects the Engineer responsible for the project will complete a SF0002 Capital Scheme Approval Form, which has to be approved by the appropriate person depending on the level of expenditure. Total Budget is not necessarily released all at once.

Authorization limits

Initial, subsequent or Baseline	Head of Department	≤ £100k
	Director	≤ £1m
	Board	> £1m
Change control	Head of Department	≤ 20% of approved budget and/or ≤ £100k
	Director	≤ 20% of approved Budget and/or >£100k

3.3. Reporting of Capital Expenditure (CAPEX)

Progress on implementing the delivery plan is updated monthly by the program managers. This is reported to the relevant Director and then also to the Board.

3.4. Capitalisation Tests

When the Financial Control team is capitalising a project they will look at all aspects of the project. Part of this review will be to assess if the expenditure is Capital and having some long-term economic benefit for the company. Revenue items can be filtered out and will be recoded.

On large projects the relevant project manager will review the depreciation and capitalisation of assets. Ensuring compliance with the assignment to capex categories identified in the Regulatory Accounting Guidelines.

3.5. Revenue Tests

Periodically the Financial Planning and Analysis Team will check to see if expenditure is revenue or should be classified as capital expenditure on certain cost centres. Large items of revenue expenditure will be investigated. The budget centre manages will also investigate expenditure for example repairs, which are not thought to be revenue. If such expenditure is spotted the FP&A team will liaise with the Financial Control team and the relevant Department Head to identify a suitable Project they the expenditure should be coded to.

4. LABOUR, OVERHEADS AND ABSORPTION RATES

Labour and Overhead apportionment

We apportion overheads, over the assets where the cost has been incurred. Where appropriate we will use a percentage apportionment over the assets. We will match the overhead to the most appropriate asset.

4.1. Apportionment of Labour, pensions, capital salaries

Labour is capitalised via jobs in SAP on an hourly basis. Capital Salaries are capitalised on a monthly basis in SAP by an automated apportionment and manual journals. The apportionment rates from cost centres to projects are set by department Heads and the Financial Planning and Analysis team and are reviewed half yearly. Pension costs follow labour/salaries to which they relate.

4.2. Apportionment of Transport Costs

Transport costs are coded to revenue cost centres. The transport costs are then re-apportioned to the capital schemes where the existing cost centre costs have been charged.

4.3. Store Overhead

The stores overhead is split over revenue and capital projects based on analysis of current year's expenditure.

5. CAPITALISATION POLICY REVIEW

The Audit and Risk Committee (ARAC) considers reports from management, internal and external auditors on the system of internal control and any material control weaknesses identified. The AC will discuss with management the actions taken on any problem areas identified by Board members and management or in the internal and external auditor reports.

Periodically the Company will review its expenditure and apply the capitalisation and review tests as detailed in Section 3. Reference is also made to the Regulatory Accounting Guidelines to ensure they are still applicable. New projects also prompt this type of review and examination.

The procedures governing projects are reviewed every one to two years are as necessary.

The guidance that is in place and the internal procedures enable accurate and timely reporting of expenditure under the correct categorisation.

A new governance process to oversee capital investment is being implemented by the Chief Financial Officer, to strengthen financial controls and understanding across the company.